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FISCAL IMPACT STATEMENT

LS 7289 **NOTE PREPARED:** Apr 2, 2013
BILL NUMBER: SB 494 **BILL AMENDED:** April 1, 2013

SUBJECT: State and Local Taxation.

FIRST AUTHOR: Sen. Hershman **BILL STATUS:** CR Adopted - 2nd House
FIRST SPONSOR: Rep. T. Brown

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: (Amended) *Outdoor Signs*: This bill extends the assessment schedule for outdoor advertising through the 2016 assessment date.

Homestead Circuit Breaker Eligibility: The bill specifies that a homestead is eligible for the 1% circuit breaker cap if the homestead has actually been granted a standard deduction.

Leased Property: This bill provides that real property leased wholly or in part to a state agency is exempt from property taxes to the extent that the real property is leased to the state agency if the lease requires the state agency to reimburse the owner for property taxes.

INDOT Signs: The bill provides a property tax exemption for signs manufactured for the Indiana Department of Transportation (INDOT) to comply with federal highway funding requirements under federal law.

Penalty: This bill provides that the $50 penalty that may be imposed against a taxpayer in certain property tax appeal circumstances may not be added as an amount owed on the property tax statement.

Local Budget Review: The bill provides that if the majority of the individuals serving on a governing body of a taxing unit are not elected officials and the assessed valuation of the taxing unit is not entirely contained within a city or town but the majority of the individuals serving on the governing body are appointed by the city or town, the governing body shall submit its proposed budget and property tax levy to the city or town fiscal body rather than the county fiscal body. This bill also legalizes actions taken after June 30, 2012, and before July 1, 2013, by the fiscal bodies of certain cities or towns to adopt a final budget and levy for a taxing unit.

Referendum Levies: The bill provides for a school corporation whose voters adopted a referendum after November 1, 2009, and before May 1, 2010, that the property tax revenue from the referendum is to be distributed to the school corporation instead of the redevelopment commission having taxable property within the school corporation (applies to revenue received after 2013).

Penalties for Improper Standard Deductions: This bill provides that if a county auditor in a county other than Marion County determines that property is not eligible for the standard deduction and the property taxes, interest, and penalties are collected within 30 days after a notice is issued to the taxpayer, the amount of the increased property taxes, interest, and penalties deposited in the county auditor's nonreverting fund may not exceed $100,000 per year, and any amount exceeding $100,000 must be deposited in the county general fund.

Sales Assessment Ratio Studies: The bill specifies that the Department of Local Government Finance (DLGF) shall annually review each coefficient of dispersion study and each sales assessment ratio study that are submitted by a county. It creates a five year pilot program to require the DLGF to review and analyze certain improved residential property data submitted for North Township in Lake County and for Center, Wayne, and Washington townships in Marion County. The bill requires the DLGF to separate the parcels in these townships into four comparable groups and separately review and analyze data for each of the four groups and to prepare a coefficient of dispersion study and a property sales assessment ratio study for each group.

Sales Tax: This bill removes the requirements that aircraft be registered out of the United States and be of a certain size for the sales and use tax exemption regarding tangible personal property used for the repair, maintenance, refurbishment, remodeling, or remanufacturing of an aircraft or an avionics system of an aircraft.

The bill expands the sales tax exemption for research and development equipment to include any tangible personal property used for research and development, regardless of whether the person acquiring the property is the ultimate manufacturer or seller of the product that is the subject of the research and development. It repeals an obsolete section concerning the exemption for research and development equipment for property acquired after June 30, 2005, and before July 1, 2007.

The bill also restores provisions inadvertently repealed in 2012 concerning sales tax on gasoline.

Vigo County Innkeeper's Tax: This bill changes the maximum innkeeper's tax rate that may be imposed by the county council of Vigo County from 5% to 10%.

Alcoholic Beverage Excise Tax Credit: The bill provides an alcoholic beverage excise tax credit for liquor or wine excise taxes paid in duplicate as a result of excise taxes being imposed both at the time the taxed goods are received and when the same goods are withdrawn from a storage facility. The bill requires the taxpayer to annually use an amount equal to the credit for capital expenditures to expand employment or assist in retaining employment within Indiana. It requires the Department of State Revenue (DOR) to annually verify whether the capital expenditures made by the taxpayer comply with the requirement.

Certified Technology Parks: The bill provides that the Indiana Economic Development Corporation (IEDC) may designate not more than two new certified technology parks (CTP) during any state fiscal year. It provides that the designation of a new CTP is subject to review by the Budget Committee and approval of the Budget Agency.

Airport Authorities: This bill permits a local airport authority to annually transfer up to 5% of the authority's property tax levy for operating and maintenance to the authority's cumulative building fund.

Airport Property Exemption: The bill expands the definition of "aviation related property or facilities" to include properties or facilities used as aviation manufacturing or aviation research and development facilities.

Local Reorganization: This bill specifies that the DLGF may make various adjustments to the maximum permissible property tax levies, maximum permissible property tax rates, and budgets of political subdivisions that enter into a reorganization.

Cumulative Funds: Upon the request of the town of Zionsville in Boone County, the bill requires the DLGF to establish a cumulative building and equipment fund for fire protection and related services and make related levy adjustments.

This bill prescribes the maximum tax rate for the cumulative building fund of the Frankfort Airport Authority.

The bill also specifies the rate to use in the first step of the calculation of the maximum property tax rate for the capital projects fund of the Vincennes Community School Corporation.

Fire Protection Levies: The bill legalizes the actions of the DLGF with regard to levies by Barkley and Union Townships in Jasper County for township fire protection and emergency services.

Exempt Property: This bill forgives property taxes, penalties, or interest for various properties owned by nonprofit organizations.

Mishawaka School Budgets: The bill provides that notwithstanding any action of the DLGF to the contrary, the advertised budget of the school city of Mishawaka is the school city's budget for calendar year 2013. It provides for the collection of property taxes in accordance with the advertised budget on the second installment of property taxes due in 2013.

Union-Lakeville Fire Protection Territory: This bill provides that upon petition by the executive of Union Township in St. Joseph County (as the provider unit of the Union-Lakeville Fire Protection Territory [FPT]), the DLGF shall increase the township's maximum property tax levy for the FPT by the amount necessary to increase the township's maximum property tax levy for the FPT for property taxes first due and payable in 2014 to 70% of the amount of the township's maximum property tax levy for the FPT that applied to taxes first due and payable in 2006.

Effective Date: Upon passage; January 1, 2007 (retroactive); January 1, 2011 (retroactive); July 1, 2013; January 1, 2014.

Explanation of State Expenditures: (Revised) *Sales Tax Exemptions*: This bill may increase administrative costs of the DOR. The DOR may have to amend Sales Tax forms and computer software to incorporate the bill’s provisions regarding the aircraft-related exemption and the research and development property exemption. The bill’s requirements are within the DOR’s routine administrative function and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Sales Tax on Gasoline: The bill restores provisions inadvertently repealed in 2012 regarding Sales Tax deductions and credits offered to retail merchants for prepayments of Sales Tax on gasoline. This provision does not have a fiscal impact on the state. DOR will continue to administer Sales Tax on gasoline in the same manner as before the provisions were repealed.

Certified Technology Parks: This bill requires the IEDC to submit a proposal to the Budget Committee whenever the IEDC wants to designate a new CTP. The Budget Committee will make a recommendation to the State Budget Agency, and the State Budget Agency will make the final determination. This process is similar for the creation of other zones that may receive incremental tax revenue. The bill also limits the establishment of CTPs to 2 per fiscal year. In the first two years of the program (2003 and 2004), 14 CTPs were established. Since then, the IEDC has designated between 1 to 2 CTPs a year. These requirements are within the agencies' routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

[The CTP program was created to help locate businesses involved in high-technology to Indiana and facilitate job creation by these businesses. CTPs are authorized to capture incremental revenue from Sales Tax, state Income Tax, and local option income tax. Each CTP has a lifetime limit of $5 M in revenue they can capture. As of September 2012, 23 CTPs have been designated.]

(Revised) *Leased Property*: Under this provision, state expenses for rent on leased property would be reduced. In a case where the state leases only a portion of a parcel, the exemption would be based on the assessed value of the portion of the parcel occupied by the state. The total amount of state leases and the portion of rent that is property tax reimbursement are not currently known.

The state Department of Administration (DOA) currently leases 2.3 million square feet of space at an annual rent of $31.5 M. The property tax component of this rent is not known. Additionally, the Bureau of Motor Vehicles has 137 leases with an estimated annual rent of $6 M. These leases do not include property leased by quasi-state agencies.

Sales Assessment Ratio Studies: The DLGF currently reviews sales assessment ratio studies in each county and township. For North Township in Lake County and for Center, Washington, and Wayne Townships in Marion County, this bill would require the DLGF to further divide the parcels in each township into four groups and analyze the sales assessment ratio studies at that level. This provision would apply to studies submitted to the DLGF in 2013 through 2017. The DLGF should be able to complete the additional analysis with current resources.

Explanation of State Revenues: (Revised) *Summary:* The bill provides Sales Tax exemptions for: (1) items related to aircraft repair and remodeling; and (2) research and development property. The total estimated revenue loss from the Sales Tax exemptions is summarized in the table below.

Exemption	**FY 2014**	**FY 2015**
Aircraft Repair and Remodeling	($1.2 M - $1.8 M)	($1.2 M - $1.8 M)
Research and Development	($4.7 M)	($4.7 M)
Total	**($5.9 M - $6.5 M)**	**($5.9 M - $6.5 M)**

The bill also provides an Alcoholic Beverage Tax credit. This credit could result in an estimated $7 M total revenue loss.

Sales Tax Exemption - Aircraft Repair and Remodeling: Sales Tax revenue could decrease by $1.17 M to $1.75 M in FY 2014 and by $1.22 M to $1.83 M in FY 2015. This bill expands the current Sales Tax exemption for items related to aircraft repair, maintenance, refurbishment, remodeling, or remanufacturing to include aircraft of any size that are registered in the United States. Under current statute, only items purchased for aircraft having a minimum landing weight of at least 5,000 pounds and registered outside the United States are exempt from the Sales Tax.

Sales Tax revenue is deposited as follows: 99.848% in the state General Fund, 0.123% in the Commuter Rail Service Fund (CRSF), and 0.029% in the Industrial Rail Service Fund (IRSF). The table below shows the estimated impact of this bill on each fund in FY 2014 and FY 2015.

Impact on Funds		**Lower Limit Estimate**		**Upper Limit Estimate**	
Fund	**Distribution**	**FY 2014**	**FY 2015**	**FY 2014**	**FY 2015**
General Fund	99.848%	($1,168,045)	($1,215,373)	($1,752,067)	($1,823,060)
CRSF	0.123%	(1,439)	(1,497)	(2,158)	(2,246)
IRSF	0.029%	(339)	(353)	(509)	(529)
Total	**100.000%**	**($1,169,823)**	**($1,217,224)**	**($1,754,734)**	**($1,825,835)**

Total Sales Tax revenue collected from Federal Aviation Administration-registered aircraft repair locations was about $2.3 M in CY 2011. It is estimated that 44% to 65% of those purchases were items related to the repair, maintenance, refurbishment, remodeling, or remanufacturing of aircraft registered inside the United States.

(Revised) *Sales Tax Exemption - Research and Development Property*: This provision could decrease Sales Tax revenue by approximately $4.7 M annually. The table below shows estimated Sales Tax revenue losses due to expanding the exemption to include any tangible personal property directly used in research and development. The figures shown below are based on underlying research and development equipment spending projected through 2015 based on historic spending totals. Spending that is currently exempt from the Sales Tax is not included.

Fund	**Distribution**	**FY 2014**	**FY 2015**
General Fund	99.848%	($4,673,897)	($4,694,128)
CRSF	0.123%	(5,758)	(5,783)
IRSF	0.029%	(1,357)	(1,363)
Total	**100.000%**	**($4,681,012)**	**($4,701,274)**

These estimates are derived from recent U.S. investment in equipment, apportioned for equipment used for research and development. A share of annual investments was allocated to Indiana based on the state's GDP relative to total U.S. GDP.

This bill expands the current Sales Tax exemption for certain tangible personal property purchased for research and development activities. Under current statute, the following items purchased for research and development activities are exempt from the Sales Tax: laboratory equipment, computers, computer software, telecommunications equipment, and testing equipment. The bill expands the exemption to cover any other tangible personal property that is purchased for the purpose of activities devoted directly to experimental laboratory research and development.

(Revised) *Alcoholic Beverage Excise Tax Credit*: The bill provides an Alcoholic Beverage Tax credit for liquor or wine excise taxes paid in duplicate (both at the time the goods are received and when they are withdrawn from a storage facility). This provision could have a total negative revenue impact of about $7 M. The amount of credits claimed each month is limited to 5% of the taxpayer's monthly Alcoholic Beverage Tax liability.

Alcoholic Beverage Taxes are deposited in varying amounts in the following funds: state General Fund, Post War Construction Fund, Enforcement and Administration Fund, Pension Relief Fund, Addiction Services Fund, and Wine Grape Market Development Fund.

Explanation of Local Expenditures: (Revised) *Airport Authorities*: Under the bill, local airport authorities could transfer up to 5% of operating levies to the cumulative building fund. In CY 2013, ten airport authorities levied $11.2 M in their operating funds. At 5%, the maximum total transfer to cumulative funds would be $562,000. Six airport authorities were shown not to have an operating levy. The airport authorities and the possible transfers under this bill are shown in the following table.

2013 Airport Authority Operating Fund Levies

County	Airport Authority	General Fund Levy	5% of GF Levy
Allen	Fort Wayne-Allen County Airport Authority	3,693,539	184,677
Cass	Logansport/Cass Co Airport Authority	400,559	20,028
Clinton	Frankfort Airport	0	0
DeKalb	DeKalb County Airport Authority	0	0
Delaware	Delaware Airport	399,970	19,999
Dubois	Dubois County Airport	95,852	4,793
Fulton	Fulton County Airport Authority	0	0
Jackson	Seymour Airport Authority	0	0
Lake	Gary Airport	1,413,901	70,695
LaPorte	LaPorte Municipal Airport Authority	0	0
Perry	Perry County Airport Authority	0	0
Porter	Porter Co Airport Authority	496,832	24,842
St. Joseph	St. Joseph Airport	2,278,332	113,917
Starke	Starke County Airport Authority	242,679	12,134
Vanderburgh	Evansville-Vanderburgh Airport Authority	966,672	48,334
Vigo	Hulman Field Airport	1,251,645	62,582
		11,239,981	**562,001**

(Revised) *Mishawaka School Budgets*: This bill would result in an additional expense for St. Joseph County to prepare and transmit revised 2013 tax bills to taxpayers of the School City of Mishawaka. *(See Local Revenues for additional details.)*

Penalty: Under current law, a $50 penalty is assessed against a property taxpayer who appeals an assessment or deduction if a request for continuance, a request for the PTABOA to take action without the taxpayer being present, or a withdrawal is not timely filed and the taxpayer or representative fails to appear at the hearing. Under this bill, the penalty may not be added to the tax bill. The county's cost to collect the penalty could increase under this provision.

Explanation of Local Revenues: *Homestead Circuit Breaker Eligibility - Summary*: The number of properties eligible for the 1% tax cap could be reduced under this bill. The higher property tax cap could potentially increase revenues for taxing units where the property is located. The number of properties affected is thought to be very smal-l.

Homestead Circuit Breaker Eligibility - Background: Under current law, to qualify for the 1% property tax cap, a property must be *eligible* for the standard deduction. Under this bill, only properties that have *actually received* the standard deduction would be eligible for the 1% property tax cap. Nonhomestead residential properties have a 2% tax cap.

If an eligible taxpayer has not filed for the standard deduction, then the county auditor has no way to determine that a property is eligible for the 1% tax cap. In some cases, taxpayers have contacted the county auditor after receiving a tax bill. In those cases, the county auditor is able to apply the 1% cap retroactively and correct the tax bill. However, because these taxpayers have not received the standard and supplemental standard deductions, the tax due before the application of the cap is significantly higher than if the taxpayer had received those deductions. As a result, the revenue loss under the cap is larger.

Currently, a taxpayer who is eligible for the standard deduction may file for the deduction as late as January 5th of the year in which property taxes are due.

(Revised) *Sales Tax*: Local revenue could decrease due to the aircraft-related exemption and the research and development exemption to the extent that a local unit receives distributions from the Commuter Rail Service Fund or the Industrial Rail Service Fund.

(Revised) *Cumulative Funds:* The increases to cumulative fund tax rates and levies unit under this bill would increase total tax rates and could affect circuit breaker losses for intersecting taxing units.

(Revised) *Cumulative Funds - Zionsville*: Under this provision, the DLGF would be required to establish a cumulative fire building fund for the town of Zionsville upon the town's request. For taxes payable in 2013, Zionsville's certified net assessed value was $1.884 B. The maximum tax rate for the fund would be $0.0033 per $100 of AV. The estimated levy at the maximum rate would be about $62,200. The fund could be established for taxes payable as early as CY 2014.

In addition, this bill would increase Zionsville's maximum levy for 2014 by the amount of the actual 2012 property tax levy for the fire territory's equipment replacement fund. The amount of the increase would be $446,815.

(Revised) *Cumulative Funds - Frankfort Airport*: Under this provision, the maximum rate for the Frankfort Airport Authority cumulative fire fund would be increased to $0.0067 per $100 AV. For taxes payable in 2013, the airport authority imposed a $0.0032 tax rate in the cumulative fund which produced a $45,390 levy on a certified net AV of $1.42 B. The estimated levy at the $0.0067 rate would be about $95,035, an increase of

$49,465. The increase would first affect taxes payable in CY 2014. Tax bills for all taxpayers in the Frankfort Airport territory would increase unless a taxpayer's bill is already at the cap.

(Revised) *Cumulative Funds - Vincennes Community Schools*: Under this provision, the Vincennes Schools' 2014 capital projects fund (CPF) tax rate would be increased by about $0.0430 per $100 AV. Using the school's 2013 AV as an estimate, the CPF levy could rise by about $304,800 in 2014. The increase would first affect taxes payable in CY 2014 and would be the basis for CPF tax rates going forward. Tax bills for all taxpayers in the Vincennes Community School District would increase unless a taxpayer's bill is already at the cap.

Fire Protection Levies: Under HEA 1072-2012, Barkley Township and Union Township, both in Jasper County, could receive an increase in their firefighting maximum levies beginning in 2013 if they petitioned the DLGF. Barkley Township's increase was limited to $12,247, and Union Township's increase was limited to $14,557. Under this bill, the actions of DLGF with regard to these petitions would be legalized.

Referendum Levies: Under current law, most building projects initiated by school corporations and local civil taxing units are subject to a public referendum. In addition, school corporations may seek additional property taxes for operating purposes through a referendum. All property tax levies imposed after being approved in a referendum are exempt from the circuit breaker caps.

Also under current law, the taxes paid on assessed valuation (AV) that exceeds the base AV in a TIF area is allocated to the redevelopment commission and is not distributed to local civil taxing units and school corporations. If the taxes to be paid on the allocated AV will exceed the amount needed by the commission for necessary expenses, then the commission must currently reallocate the excess AV back to the taxing units and schools.

Currently, in the case of a referendum passed after April 30, 2010, in a TIF area, the taxes generated by a referendum tax rate in a TIF area are to be paid directly to the civil taxing unit or school corporation that passed the referendum and not to the redevelopment commission.

However, in the case of a referendum passed before May 1, 2010, in a TIF area, the referendum tax rate is treated like all other tax rates. So, the referendum taxes paid on the TIF AV are allocated to the redevelopment commission. If the commission finds that the allocated taxes with the referendum levy exceed necessary expenses, then the commission must reallocate AV back to the taxing units and schools. This reallocation has the effect of lowering the tax rate for all taxing units including the school corporation and increasing the levy generated in rate-controlled cumulative funds for those units.

This bill would affect taxes payable due to a referendum passed after November 1, 2009, and before May, 2010. It would be effective beginning with taxes payable in 2014. Under this bill, the taxes generated by a referendum tax rate in a TIF area would be paid directly to the civil taxing unit or school corporation that passed the referendum and not to the redevelopment commission. TIF proceeds would be maintained at their pre-referendum amounts. Reallocations of AV caused by excess taxes due to referenda would be eliminated (although reallocations may still occur for other reasons).

According to the DLGF, three school corporations, Beech Grove, Hamilton Southeastern, and Southern Wells, passed referenda between November 1, 2009, and May 2010. Two of these three school corporations, Beech Grove and Hamilton Southeastern, currently have a TIF area in their territory.

Beginning with taxes payable in 2014, these school corporations would receive the full benefit from the referendum tax levy even if a TIF district is present. The effect on the referendum unit would be either higher referendum income or the opportunity to reduce the referendum tax rate.

Leased Property and INDOT Signs: Under these provisions, an unknown amount of property would become exempt from property taxation. Property leased by the state and highway signs not owned by the state would be exempt from property tax under this bill. The exemptions would result in higher tax rates in the areas where the exempt property is located. The higher tax rates would shift property taxes to other taxpayers and would also increase revenue losses from the circuit breaker caps.

Exempt Property - Church: Under this provision, owners of certain real property would receive an exemption from property tax for taxes payable in 2008 and 2009 if:

(1) The owner purchased the real property in June 2007, and has used the property for church purposes since that time;
(2) The owner filed a property tax exemption application for the property in June 2007; and
(3) The owner files an exemption application before September 1, 2013.

Under this provision, the exemption would apply retroactively and the 2008 and 2009 tax bills along with all penalties and interest would be cancelled.

One taxpayer, in St. Joseph County, has been identified as qualifying for an exemption under this provision. The taxes billed for 2008 and 2009 total approximately $49,000. For 2008 and 2009, the local taxing units and school corporation located in the affected taxing district would forego receipt of their share of the amount due.

(Revised) *Exempt Property - Marion County:* Under this provision, owners of real and personal property located in Marion County would receive an exemption from property tax for taxes payable in 2012 and 2013 if:

(1) The owner owns multiple parcels of real property in Marion County that are used for educational, literary, scientific, religious, or charitable purposes;
(2) The owner would have qualified for the exemption if it had been timely filed; and
(3) The owner files an exemption application before September 1, 2013.

Under this provision, the exemption would apply retroactively and the 2012 tax bill would be cancelled. One taxpayer has been identified as qualifying for an exemption under this provision. The taxes billed for 2012 amount to approximately $59,535. The local taxing units and school corporation located in the affected taxing district would forego receipt of their share of the amount due for 2012 and 2013.

(Revised) *Exempt Property - Ministry:* Under this provision, owners of real property located in Marion County would receive an exemption from property tax for taxes payable in 2013 if:

1) The owner is exempt from federal income taxes;
2) The owner owns a vacant parcel of real property in Marion County that is used for educational, literary, scientific, religious, or charitable purposes;
3) The owner acquired the eligible property after the 2012 assessment date and redeemed the eligible property after it was sold for delinquent taxes in 2012;
4)The owner would have qualified for the exemption in 2013 if it had been timely filed; and
5) The owner files an exemption application before September 1, 2013.

Under this provision, the tax bill for 2013 would be cancelled. The ministry would also be entitled to a refund for any back taxes, penalties, and interest paid in 2010, 2011, and 2012 with respect to the eligible property, or for any amount paid to redeem the eligible property.

One taxpayer has been identified as qualifying for an exemption under this provision. The amount paid to redeem the property in 2012 is estimated at approximately $9,161.The tax bill for 2013 is estimated at approximately $4,128. For 2012, and 2013, if applicable, the local taxing units and school corporation located in the affected taxing district would forego receipt of their share of the amount due.

The Marion County Treasurer’s office indicated that a property tax exemption was filed for this property in July 2012, but has not yet been approved.

(Revised) *Exempt Property - Grant County:* Under this provision, the owners of certain real property would receive an exemption from property tax for taxes payable in 2013 and 2014 if:

(1) The property is a historic landmark in Grant County;
(2) The owner is exempt from federal income taxes;
(3) The owner purchased the property after March 1, 2011; and
(4) The owner files an exemption application before September 1, 2013.

Under this provision, the exemption would apply retroactively to taxes payable in 2013 and prospectively to the 2014 tax bill.

One taxpayer has been identified as qualifying for an exemption under this provision. The total taxes billed for 2013 were $2,988.06. The local taxing units and school corporation located in the affected taxing district would forego receipt of their share of the amount due. For taxes payable in 2014, the exemption would remove the property’s assessment from the tax base. The tax rate would increase and the taxes would be shifted from the property receiving the exemption to all other taxpayers.

(Revised) *Outdoor Signs*: Under this bill, the use of the current valuation schedule for outdoor signs would be extended by two years, through taxes payable in 2017.

The valuation schedule most likely results in a total sign valuation that is about 25% lower than the AV without schedule. Under current law, the assessed valuation of outdoor signs will rise beginning with taxes payable in 2016. The additional AV will reduce both tax rates and circuit breaker losses.

Under this proposal, the change in valuation would be delayed by two years. Compared with current law, the lower assessments for taxes payable in 2016 and 2017 would cause higher property tax rates and could result in increased circuit breaker losses for local civil taxing units and school corporations.

<u>Background</u>: Prior to the 2011 Pay 2012 assessment year, outdoor advertising signs were assessed under a DLGF rule that set the value of each sign based on the type, size, and number of faces on the sign. The DLGF repealed that rule effective with taxes payable in 2012. Beginning with taxes payable in 2012, outdoor advertising signs were to have been valued in the same manner as most other depreciable personal property by listing the cost of the signs in the depreciation schedule in the personal property tax return. The cost to purchase an existing outdoor sign can vary greatly depending on location. In many cases the value under the current method is higher than under the previous rule.

HEA 1072-2012 established a valuation schedule to be used for taxes payable from CY 2012 through CY 2015. The new schedule sets the unit value per structure based on the type and size, but not the number of faces, of each sign. This value is used in lieu of the value arrived at by using the depreciation schedule in the personal property tax return.

For taxes payable in 2011 (under the previous rule), $7.7 M in assessed value was reported statewide by taxpayers who self-reported their principal business activity as display advertising. The tax due was estimated at $195,000. Before the enactment of HEA 1072-2012, $22.2 M in assessed value was reported for taxes payable in 2012 (without a rule or schedule) and the estimated tax due was $602,000. So, with no special rule in place, the tax due is estimated to be 209% higher than it was under the old rule.

The total AV and taxes attributable to outdoor advertising signs are not known. The property tax returns for the taxpayers identified above may also contain property other than outdoor advertising signs, so the above estimates for these taxpayers may be high. However, the full universe of outdoor advertising signs is not known. If a sign owner listed any other activity as their principal business activity, then the value of their signs would not be included in the estimates above. It is very likely that there are many outdoor advertising signs that are reported on property tax returns other than those identified here.

(Revised) *Penalties for Improper Standard Deductions:* In counties other Marion, this provision would limit the amount of back taxes and penalties from improper standard deductions retained by the county auditor to $100,000 per year per county. Amounts collected over $100,000 would be deposited into the county general fund. This provision could reduce county auditor revenue and increase county general fund revenue in a county if that county has a large number of improper standard deductions in any one year.

<u>Background</u>: Currently, a taxpayer must notify the county auditor within 60 days of any change in the use of homestead property that renders all or part of the property ineligible for the standard deduction. Failure to make the notification results in a liability for the taxes that would have been due on the property without the deductions and associated credits plus a penalty equal to 10% of the additional tax. One percent of the penalty is transferred to the DLGF.

Each county auditor maintains a non-reverting fund for deposit of delinquent taxes, penalties, and interest collected from taxpayers who received the standard deduction and associated benefits but were found to be ineligible. Money in the fund may only be used, as appropriated by the county fiscal body, by the county auditor to cover fees and costs incurred in the discovery of improper standard deductions and homestead credits, for other expenses of the auditor's office, and for the costs of processing the homestead verification forms mailed to taxpayers in 2010, 2011, and 2012. These funds may not be considered in setting the auditor's budget or the county's tax levy.

(Revised) *Airport Property Exemption:* This provision would expand the definition of aviation related property or facilities that qualify for property tax exemptions. Additional exemptions would reduce the tax base and increase tax rates. The increased tax rates would shift the tax burden from the property receiving the exemption to all other property. In areas where properties are taxed at the circuit breaker cap, revenue losses due to the caps would increase.

Under current law, aviation related property or facilities leased by the airport authority or aviation board, together with any permanent structure erected on the property by the lessee is exempt from property taxation. This provision would add property used for aviation manufacturing and research and development to the definition.

(Revised) *Mishawaka School Budgets*: This provision would restore Mishawaka City School Corporation's 2013 budget appropriations to the amounts advertised by the school corporation, an increase from the amounts certified by the DLGF. The advertised (and locally adopted) budgets for all funds totaled $47,077,499. The DLGF certified $43,980,507. This bill would increase the total budget by $3,096,992 for 2013. The school corporation would be entitled to an increased 2013 levy to support the increased budget.

The bill requires the DLGF to recalculate the tax rates for the school corporation and to assist the county auditor in applying the recalculated tax rates to the second installment of property taxes in 2013. The bill requires the county treasurer to transmit a revised tax bill to all of the taxpayers of the School City of Mishawaka.

The increased levy and tax rate would increase tax bills for all Mishawaka School taxpayers who are not already at the circuit breaker cap. Circuit breaker losses could rise for all taxing units that intersect with the School City of Mishawaka.

(Revised) *Vigo County Innkeeper's Tax*: The bill allows Vigo County to increase its Innkeeper's Tax rate from 5% up to 10%. This provision could increase revenue to the Vigo County Convention and Visitor Promotion Fund by approximately $1.3 M in 2014 and 2015. If the county increases the rate in July 2013, revenue could also increase by a smaller amount in 2013. The table below shows the estimated revenue impact, assuming Vigo County increases the Innkeeper's Tax rate to 10% in 2013.

CY	Revenue at 5% Rate	Revenue at 10% Rate	Estimated Impact
2013	$1,264,180	$1,580,224	$316,045
2014	1,275,234	2,572,576	1,297,342
2015	1,297,535	2,617,565	1,320,030

The revenue projections above are estimated based on recent taxable receipts and a historic average growth rate of 1.75%. Vigo County currently levies the Innkeeper's Tax at a rate of 5% of gross lodging income. The rate has not changed since state FY 2005. In FY 2012, Vigo County collected approximately $1.2 M in Innkeeper's Tax revenue. Over the past five years, collections have remained relatively stable.

(Revised) *Union-Lakeville Fire Protection Territory*: This provision would increase the 2014 maximum levy for the Union-Lakeville Fire Protection Territory in St. Joseph County by $44,281 to 70% of the 2006 maximum levy amount.

The 2013 maximum levy was $83,621. With annual growth, the 2014 maximum levy is estimated at $85,712. The 2006 levy was $185,704. The new 2014 maximum levy would be $129,993, or $44,281 higher than the estimated 2014 maximum levy under current law.

The new 2014 maximum levy would be the basis for future years' levies. The increased levies would cause an increase in the property tax rate. The increased rate would result in higher property tax bills for all taxpayers in the territory who are under the property tax cap. Circuit breaker losses could increase for taxing units that intersect with the fire territory.

State Agencies Affected: Department of State Revenue; Indiana Economic Development Corporation; Department of Local Government Finance.

Local Agencies Affected: Counties; County auditors; Town of Zionsville; Airport Authorities; Barkley and Union Townships in Jasper County; Vigo County Treasurer's Office; Vigo County Convention and Visitors Bureau; School City of Mishawaka; Vincennes Community Schools; Beech Grove Schools; Hamilton Southeastern Schools.

Information Sources: LSA Property Tax Database; Revenue Technical Committee, *State Revenue Forecast, Fiscal Year 2015,* December 17, 2012; LSA, *Indiana's Geographically Targeted Development Programs: Certified Technology Parks,* September 8, 2012; Local Government Database, DLGF; Shane Corbin, Department of State Revenue, 317-232-2107; Steve Harless, Department of Administration, 317-234-4724; Ms Judi Jessup, Marion County Treasurer's Office, 317-327-4001; US Department of Economic Analysis; National Science Foundation; Courtney Schaafsma, Department of Local Government Finance, 317-232-3777.

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